



# China Sourcing Update

June 12, 2018

## Prices of Natural Textile Materials

### 1. Cotton price indices soar in May

The price indices<sup>1</sup> of cotton rose sharply in May. The CC Index 3128B, for example, jumped from 15,453 on 28 April to 16,611 on 31 May, the highest level since September 2014 (see exhibit 1).

The surge in domestic cotton prices in the month was triggered by two factors. First, there were concerns over a possible reduction in the domestic as well as global supply of cotton, as the bad weather in Xinjiang, the major cotton growing region in China, and in other major cotton growing countries in the month affected the sowing and growing of cotton. Second, the US administration threatened on 29 May to proceed with its proposal to impose additional tariffs of 25% on US\$50 billion worth of goods from China, which sparked fears that a full-fledged China-US trade war will break out and the Chinese government will retaliate by imposing additional tariffs on imported US cotton.

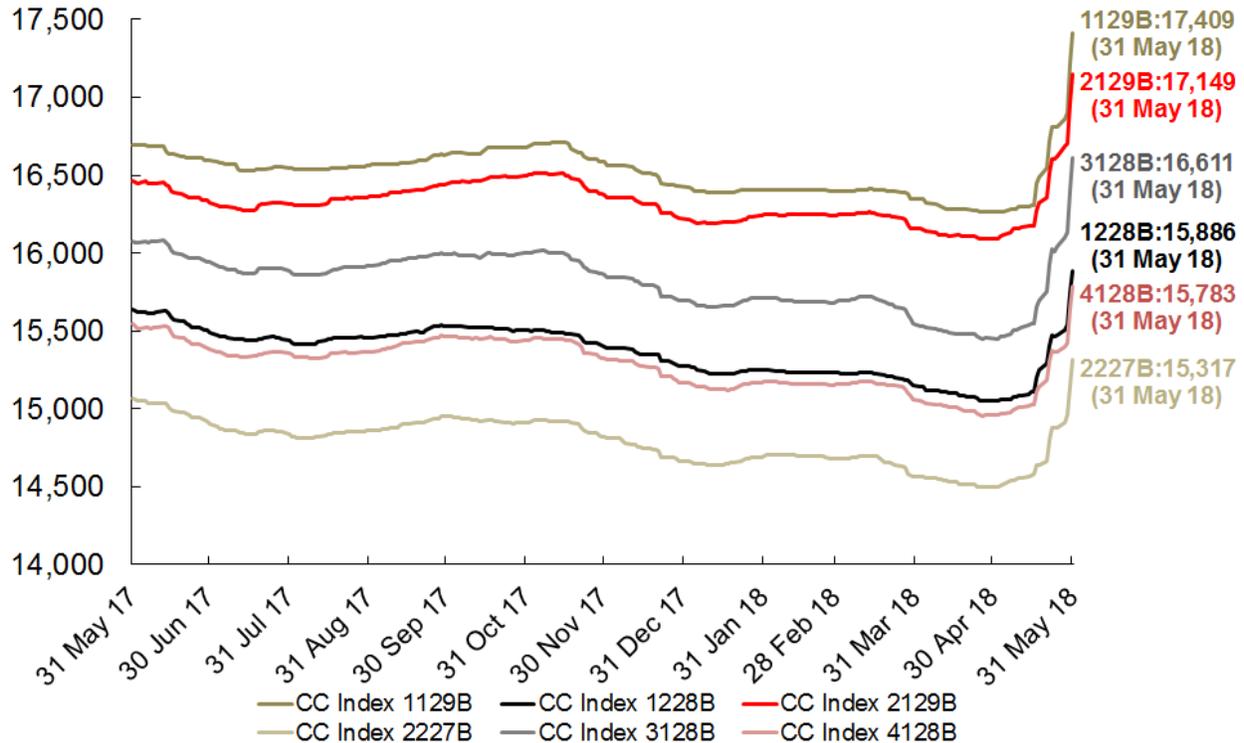
On 2 June, the Chinese government announced to prohibit non-textile companies from buying state cotton reserves starting from 4 June, to prevent dealers from hoarding cotton and manipulating cotton prices.<sup>2</sup>

Looking ahead, we believe that domestic cotton prices will stay high in the near future, as market concerns over a tightened supply of cotton and a potential China-US trade war remain, despite the Chinese government's effort to cool down the cotton market.

<sup>1</sup> The indices, compiled by the China Cotton Association, track cotton prices quoted from over two hundred textile enterprises. <http://www.china-cotton.org/>

<sup>2</sup> <http://www.cottonchina.org/news/pubzmb.php?articleid=222852&newstime=2018-06-02>

**Exhibit 1: China's cotton price indices, May 2017 to May 2018**



Source: China Cotton Association

## 2. Nanjing Wool Market Composite Index rises in May

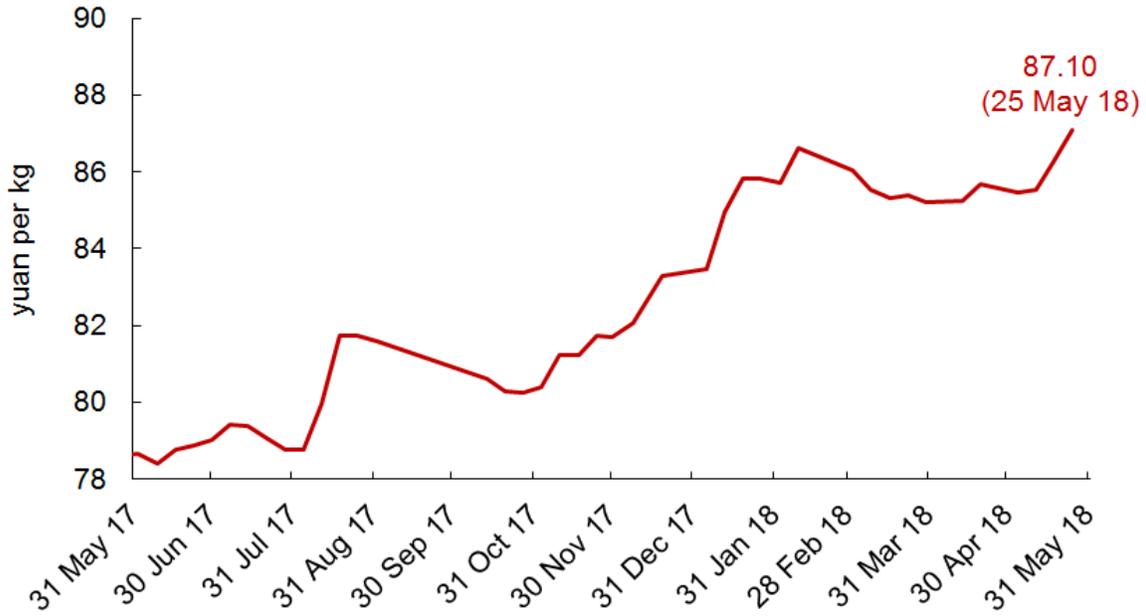
The Nanjing Wool Market Composite Index<sup>3</sup>, one of the major wool price indices in China, went up from 85.70 yuan per kg on 20 April to 87.10 yuan per kg on 25 May (see exhibit 2).

The main reason for the increase in wool prices in China in the month was a jump in wool prices in Australia, which hit record-high levels. Triggered by a stronger demand from Chinese mills as well as a tightened supply of wool, the Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) increased from 89.27 yuan per kg on 20 April to 95.84 yuan per kg on 25 May. As China imports a large amount of wool from Australia, the domestic wool prices are significantly affected by the wool price movements in the Australian market.

<sup>3</sup> <http://www.woolmarket.com.cn/>

Looking ahead, we believe that domestic wool prices will rise further in the near term, in line with the wool price movements in Australia.

**Exhibit 2: Nanjing Wool Market Composite Index,  
May 2017 to May 2018**



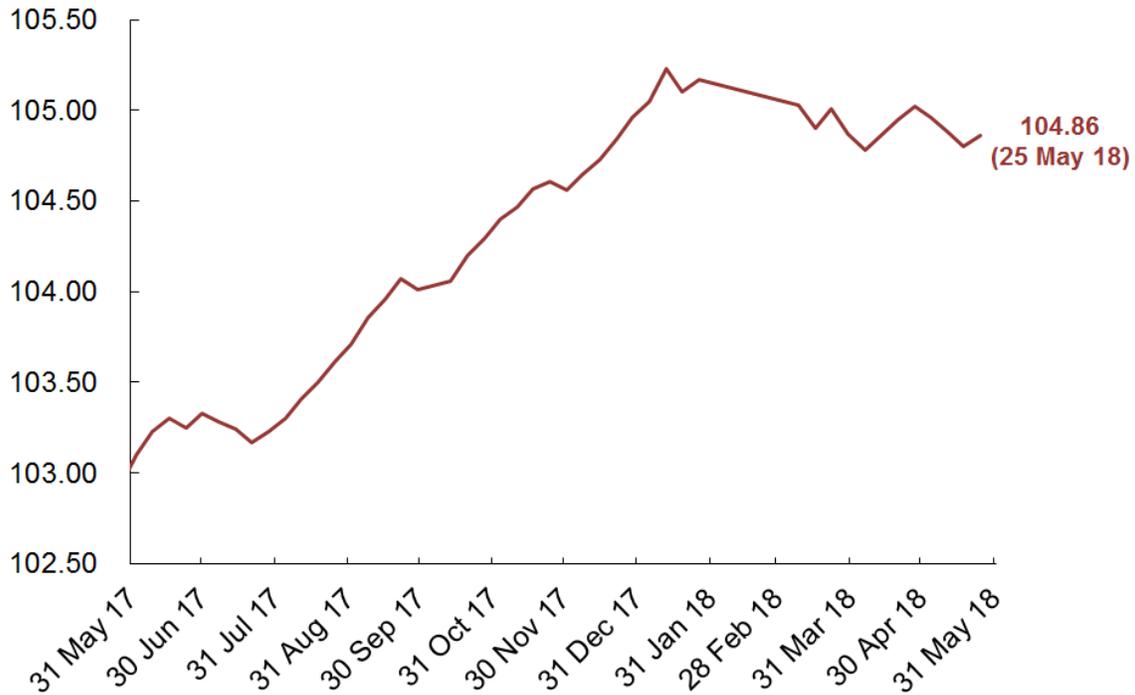
Source: The Nanjing Wool Market

### 3. Price index of silk falls slightly in May

The price index of silk trended downward in May, dropping from 105.02 on 27 April to 104.86 on 25 May (see exhibit 3). A drop in upstream costs and a sluggish downstream demand put downward pressures on silk prices in the month, in our view.

According to the latest media reports, the restocking demand from textile manufacturers improved in early June. Thus, we expect the price index of silk to rebound in the foreseeable future.

**Exhibit 3: Price index of silk, May 2017 to May 2018**



Source: Ministry of Commerce

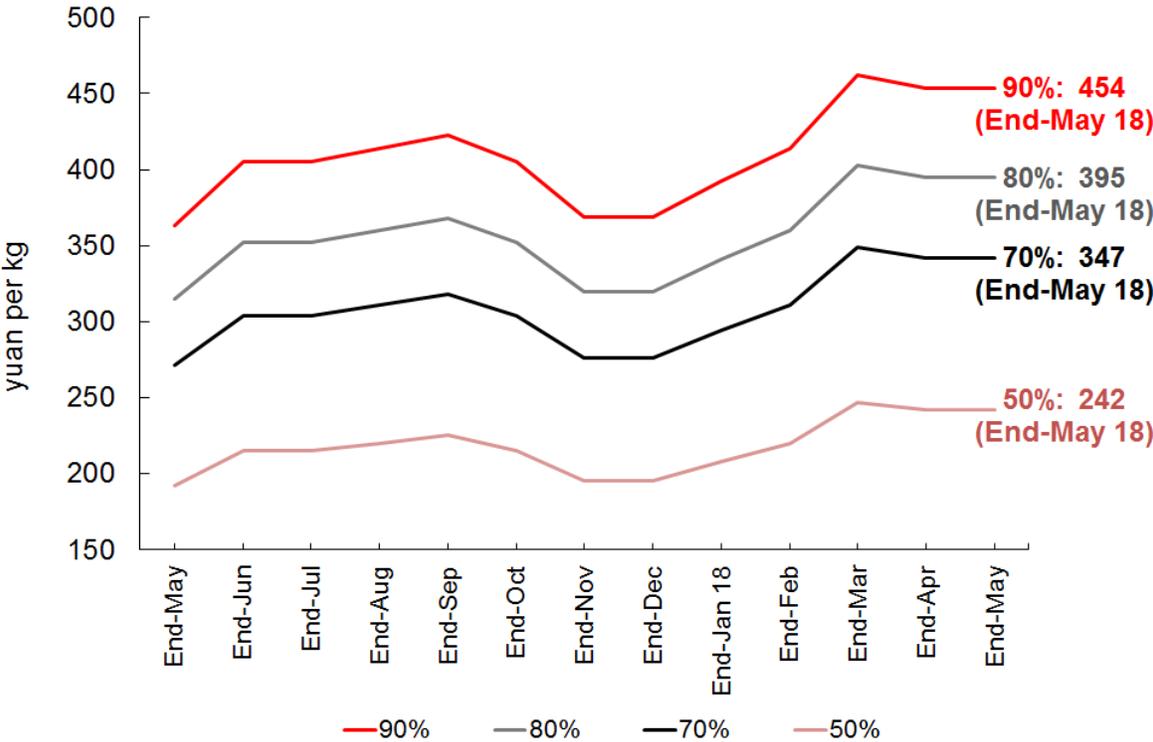
#### 4. Prices of grey goose down stay high in May

The prices of various types of grey goose down stayed high in May. For example, the price of 80% grey goose down came in at 395 yuan per kg at end-May, the same as at end-April (see exhibit 4).

In our view, the prices of grey goose down stayed high during the current low season for domestic consumption of down products because export orders for down products have increased in recent months.

Going forward, the export orders for down products are likely to remain strong. Thus, we expect that the prices of grey goose down will hover around the current high levels in the coming months.

Exhibit 4: Prices of grey goose down, May 2017 to May 2018



Source: cn-down.com

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